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## Stating the Obvious

By PAUL KRUGMAN

**"T**he lunatics are now in charge of the asylum." So wrote the normally staid Financial Times, traditionally the voice of solid British business opinion, when surveying last week's tax bill. Indeed, the legislation is doubly absurd: the gimmicks used to make an \$800-billion-plus tax cut carry an official price tag of only \$320 billion are a joke, yet the cost without the gimmicks is so large that the nation can't possibly afford it while keeping its other promises.

But then maybe that's the point. The Financial Times suggests that "more extreme Republicans" actually want a fiscal train wreck: "Proposing to slash federal spending, particularly on social programs, is a tricky electoral proposition, but a fiscal crisis offers the tantalizing prospect of forcing such cuts through the back door."

Good for The Financial Times. It seems that stating the obvious has now, finally, become respectable.

It's no secret that right-wing ideologues want to abolish programs Americans take for granted. But not long ago, to suggest that the Bush administration's policies might actually be driven by those ideologues — that the administration was deliberately setting the country up for a fiscal crisis in which popular social programs could be sharply cut — was to be accused of spouting conspiracy theories.

Yet by pushing through another huge tax cut in the face of record deficits, the administration clearly demonstrates either that it is completely feckless, or that it actually wants a fiscal crisis. (Or maybe both.)

Here's one way to look at the situation: Although you wouldn't know it from the rhetoric, federal taxes are already historically low as a share of G.D.P. Once the new round of cuts takes effect, federal taxes will be lower than their average during the Eisenhower administration. How, then, can the government pay for Medicare and Medicaid — which didn't exist in the 1950's — and Social Security, which will become far more expensive as the population ages? (Defense spending has fallen compared with the economy, but not that much, and it's on the rise again.)

The answer is that it can't. The government can borrow to make up the difference as long as investors remain in denial, unable to believe that the world's only superpower is turning into a banana republic. But at some point bond markets will balk — they won't lend money to a government, even that of the United States, if that government's debt is growing faster than its revenues and there is no plausible story about how the budget will eventually come under control.

At that point, either taxes will go up again, or programs that have become fundamental to the American way of life will be gutted. We can be sure that the right will do whatever it takes to preserve the Bush tax cuts — right now the administration is even skimping on homeland security to save a few dollars here and there. But balancing the books without tax increases will require deep cuts where the money

is: that is, in Medicaid, Medicare and Social Security.

The pain of these benefit cuts will fall on the middle class and the poor, while the tax cuts overwhelmingly favor the rich. For example, the tax cut passed last week will raise the after-tax income of most people by less than 1 percent — not nearly enough to compensate them for the loss of benefits. But people with incomes over \$1 million per year will, on average, see their after-tax income rise 4.4 percent.

The Financial Times suggests this is deliberate (and I agree): "For them," it says of those extreme Republicans, "undermining the multilateral international order is not enough; long-held views on income distribution also require radical revision."

How can this be happening? Most people, even most liberals, are complacent. They don't realize how dire the fiscal outlook really is, and they don't read what the ideologues write. They imagine that the Bush administration, like the Reagan administration, will modify our system only at the edges, that it won't destroy the social safety net built up over the past 70 years.

But the people now running America aren't conservatives: they're radicals who want to do away with the social and economic system we have, and the fiscal crisis they are concocting may give them the excuse they need. The Financial Times, it seems, now understands what's going on, but when will the public wake up?